

VZCZCXRO5476
RR RUEHGH RUEHVC
DE RUEHCN #0190/01 2580358
ZNY CCCCC ZZH
R 150358Z SEP 09
FM AMCONSUL CHENGDU
TO RUEHC/SECSTATE WASHDC 3400
INFO RUEHOO/CHINA POSTS COLLECTIVE
RUCPDO/USDOC WASHDC 0021
RUEKJCS/SECDEF WASHINGTON DC
RUEHCN/AMCONSUL CHENGDU 4082

C O N F I D E N T I A L SECTION 01 OF 02 CHENGDU 000190

SIPDIS

COMMERCE FOR BUREAU OF INDUSTRY AND SECURITY
STATE FOR EAP/CM, ISN/EEC

E.O. 12958: DECL: 9/15/2019
TAGS: [PARM](#) [EAIR](#) [EIND](#) [ETTC](#) [CH](#)
SUBJECT: SW CHINA AEROSPACE COMPANIES CLAIM U.S. EXPORT RESTRICTIONS
HAMPERING INDUSTRY

CHENGDU 00000190 001.2 OF 002

CLASSIFIED BY: David E. Brown, Consul General, U.S. Consulate
General Chengdu.

REASON: 1.4 (d)

11. (C) Introduction and Summary: Following up on issues raised by American business leaders during the Ambassador's August 28 meeting with members of the American Chamber of Commerce (AmCham) Southwest China, Consul General met separately with Lienjing Chen, Director of Manufacturing and Sourcing for Pratt & Whitney's (P&W) China-based operations, and Don Benton, General Manager of Timken (Chengdu) Aerospace and Precision Products. Reiterating points made to the Ambassador, P&W's Chen complained that U.S. restrictions on the export to China of machinery that can already be legally sourced from Europe, Japan, or domestically in China puts U.S. firms at a huge competitive disadvantage -- a point also echoed by Benton. This cable provides background that may be useful for U.S. members of the Export Controls Working Group of the U.S.-China Joint Commission on Commerce and Trade (JCCT), as they prepare for the October 28-29 JCCT meeting in Hangzhou. End Introduction and Summary.

Expanding Presence, But Hamstrung By U.S. Export Controls

12. (C) Chen said that P&W plans to increase investment in its China operations by a total of USD 85 million and will soon be relocating its Chengdu manufacturing facility to a new location in the city's Western High-Tech Zone. P&W is classified as a "Tier I" foreign company by Chinese authorities, and the Chengdu government expects it will be an "anchor" in the High-Tech Zone, along with Intel Corporation. P&W will also be increasing its ownership stake in the joint venture from the current 78.3 percent to as much as 90 percent. (Its minority shareholders are Chengdu Engine Group Company (CEGC) and Aviation Industry Corporation of China II (AVIC II)) All of the more than 500 types of components produced in Chengdu are exported to the U.S. for assembly, he added. P&W sees great potential for increasing exports of aircraft parts to China -- for example only 6.5 percent of the content in China's new regional jet, the ARJ 21, is made by Chinese companies.

13. (C) More advanced machine tools, including 5-axis milling machines, cutting lasers, and high-temperature coating equipment, would help the Chinese aviation industry develop,

Chen argued. U.S. Department of Commerce export regulations, however, prevent U.S. companies from selling this equipment to China, even though European and Japanese companies already sell these tools to Chinese companies, he asserted. As many as 10 Chinese companies also produce similar equipment, Chen stated, asserting that U.S. machine tool manufacturers were unnecessarily losing sales because of export restrictions. (Note: Asked about domestic competition, Benton said in Timken's case domestic Chinese bearing manufactures cannot yet produce anything competitive with Timken's products. End Note.)

14. (C) The so-called "China Rule" causes significant additional burdens for U.S. aerospace companies operating in China, who need to have lawyers conduct China-specific reviews to ensure they are in compliance with U.S. export laws, Chen continued. He would like to see the rules simplified, so that a greater range of equipment could be exported to China, and the burden on P&W legal staff reduced. Chen asserted that most, if not all, U.S. aerospace companies operating in China would like to see these regulations changed, and referred to a "white paper" on the topic produced by the American Chamber of Commerce in Beijing earlier this year.

15. (C) In Timken's case, Benton complained of a USG decision that he claims barred Timken from participating in a joint venture project between Eurocopter and China's Chang He Aircraft Industry Group (CHAIG) in Jingdezhen due to export control concerns. Timken and its two primary competitors, SKF from Sweden and FAG from Germany, control 80 percent of the aerospace bearings market, he said. Timken would have supplied bearings for the gearbox and transmission of the helicopter in question, but SKF and FAG are supplying them instead, since their governments do not restrict this activity. (Note: CG asked Benton for details on the venture, the technology involved, and which branch of the USG made the determination. Benton was

CHENGDU 00000190 002.2 OF 002

unable to provide the information at the time, but promised follow-up. Post has so far heard nothing further. End Note.)

The Lure of the Chinese Market, If You Can Get In On It

16. (C) Pratt and Whitney: While P&W's sales in China have been flat this year, Chen said, he remains optimistic about the potential for growth. P&W is seeking to expand its business by supplying components for a domestically-produced Chinese aircraft, the C919, that may compete with the Boeing 737 and Airbus A320. The domestic Chinese content of the C919, which is expected to be completed in 2016, may reach only 12 percent, and P&W hopes to win the bid to supply its new Geared Turbo Fan engine for use in the aircraft. Chen said that this greener engine has a 12 percent increase in fuel efficiency and a 50 percent noise reduction over previous engine designs.

17. (C) Timken: In the area of helicopters, the 2008 Sichuan earthquake provided a "wake-up call" to the government in that it did not have enough helicopters for transport and rescue, Benton said. China's current fleet is extremely small, Benton said, and "If Timken can't get in on [this market], we'll lose. It's the whole reason we came here." Despite claims of advances by China's domestic aerospace industry, Chinese companies at this point build only airframes for civil aircraft, he added. Essential systems and components, including engines, avionics, and landing gear, all must be imported or provided by foreign

firms. Whether with help from U.S. companies or from foreign firms, Benton cautioned, China will build these new aircraft.

Comment: U.S. Export Controls Benefit European Competitors?

18. (C) Comment: While Post is in no position to judge the validity of arguments for relaxation of restrictions put forward by P&W and Timken representatives, their comments do reflect broad concerns voiced to post by the U.S. business community about what they perceive as an overly cautious U.S. export control regime, and one that has at times disadvantaged U.S. firms to the benefit of primarily European competitors.
BROWN